

BILL # HB 2323

TITLE: tax credits; water conservation systems

SPONSOR: Gray, C.

STATUS: As Amended by House W&M

REQUESTED BY: House

PREPARED BY: Tim Everill

FISCAL ANALYSIS

Description

The bill would provide individual and corporate income tax credits for the installation of residential water conservation systems ("graywater" systems), and/or plumbing stub outs for graywater systems, for tax years 2006 through 2010. The credit for the installation of the graywater system is equal to 25% of the cost of the system, and may not exceed \$1,000. The credit for the installation of the graywater plumbing stub out may not exceed \$200 per house. To qualify for the credit, graywater systems and plumbing stub outs must comply with rules adopted by the Department of Environmental Quality.

Estimated Impact

The bill would reduce individual and corporate income tax revenue to the General Fund. As amended, the credits are capped at a total of \$1.5 million per year, or a total of \$7.5 million over the five year lifetime of the credits. The graywater credits would "buy down" the cost of a graywater system by 25% up to \$1,000, and the cost of a graywater stub out by an undetermined amount. The degree to which these levels of buy downs would provide incentives for individuals to install a graywater system and/or stub out is unclear. There would also be an unidentified cost for the Department of Revenue (DOR) to administer the annual cap.

DOR does not have an estimate of the revenue impact of this bill. In addition, DOR does not have an estimate for their additional administrative expenses associated with this bill.

Analysis

This bill establishes 3 income tax credits, including an individual credit for the installation of a graywater system, an individual credit for a homeowner that installs a plumbing stub out for a graywater system, and a corporate credit for a builder that installs a plumbing stub out in a home constructed by the builder. The builder may elect to transfer the credit to the purchaser of the home. A graywater system is a water conservation system that recycles water from residential bathtubs, showers, sinks and clothes washers. The recycled water is then used for landscaping purposes.

As amended, the bill provides that each of the 3 credits cannot exceed a cap of \$500,000 in a calendar year. DOR shall not allow any additional credits in that category once the cap is reached. The credits are to be allowed on a first come, first served basis.

The number of individual and corporate taxpayers who might take advantage of these new credits cannot be determined. Based on industry data, the cost of a graywater system can run from a few hundred dollars to over \$5,000. The graywater system credit would buy down the cost of the system by 25% up to a system cost of \$4,000, with \$1,000 being the maximum credit. The degree to which this level of buy down would provide an incentive for an individual to install a graywater system is unclear.

The cost of a graywater stub out for a newly constructed residence could vary widely based on the size of the home and type of construction, but could run from several hundred dollars and up. The cost of a stub out installation on an existing home cannot be determined because of the number of variables encountered when retro-fitting existing plumbing. However, the cost for retro-fitting an existing home would be substantially more than that for new construction. Again, the graywater stub out credit would buy down the cost of the stub out installation, but the extent to which this would provide incentive is unclear.

There would be an unidentified cost associated with DOR's ability to implement this legislation. DOR would have to track the new graywater credits in "real time" in order to assess whether the use of the credits had exceeded the statutory caps, and to subsequently not allow any further use of the credits. Currently, DOR tracks this type of information with a lag of up to two years, as returns are manually processed. The costs of the additional staff and processing time required cannot be determined in advance.

Local Government Impact

Incorporated cities and towns receive 15% of individual and corporate income taxes as urban revenue sharing. Accounting for the two year lag in the distribution of urban revenue sharing, this bill could have an undetermined impact on local government beginning in FY 2009. Based on the cap amounts noted above, the impact could be as much as \$225,000 per year through FY 2013, or a total of \$1.1 million.

2/18/05